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Contract rates: What they do for carrier and customer

February 22, 1982

RAILWAY AGE

MoPac maps a $118-million shop program

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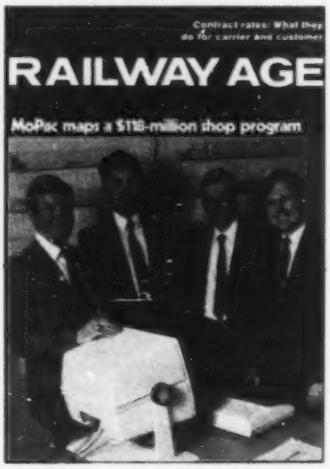
FEATURES



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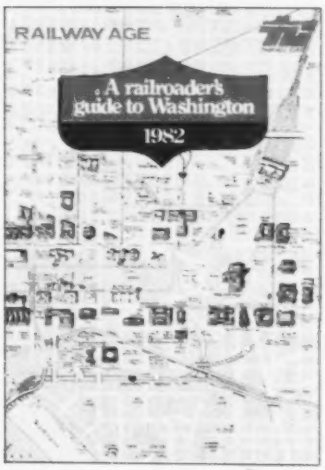

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17 MoPac maps a $118-million shop program
MP's five-year plan for upgrading Mechanical Department facilities includes a new $40-million locomotive heavy-repair shop at North Little Rock that will also have (in case it's ever needed) remanufacturing capability.

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Having trouble getting information out of the nation's capital? This updated Railway Age/Thrall Car directory is your who, where, and how guide.

37 Better rail won't come cheap
Higher metallurgical-quality rail can be made available. But are railroads willing to pay the price? And will the market be sufficient to justify the enormous capital investments that manufacturers of rail steels will have to make?

42 Contract rates are catching on
While they aren't just the ticket for every shipper, contract rates are now streaming into the ICC at the rate of 100 a month. AAR's Richard Briggs says one-third of rail traffic may one day move under such agreements.

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COVER: MoPac's mechanical department team: Donald J. Roderique, superintendent-cars; Michael L. Wall, superintendent-motive power; John G. German, vice president-engineering; and Donald M. Tutko, chief mechanical officer.

Nine-months' earnings up 152%

While figures for all of 1981 are still not available, the Association of American Railroads on Jan. 28 issued a report on railroad financial performance for the first nine months of the year, and it presented a rosy picture. Class I railroads had ordinary (net) income of $1.475 billion for the first three quarters, an increase of nearly 152% over the corresponding year-earlier period. Revenues rose to $23.2 billion in the 1981 period from $20.7 billion in 1980; operating expenses and taxes totaled $22.1 billion, up from $20 billion.

AAR President William H. Dempsey said the railroad gains, which came in a time of national recession, were largely due to "a slight rise in traffic—due primarily to heavy coal loadings—and to continued rapid recovery of inflationary cost increases, something the industry had not been able to accomplish prior to passage in late 1980 of long-awaited deregulation legislation."

Dempsey added: "Though several individual railroads turned in very good profit figures, not all did so.Furthermore, fourth quarter prospects at the moment do not present nearly the bright picture we developed through the first three quarters. The recession is bound to show its effect on annual earnings when fourth quarter figures are totaled."

While the railroad rate of return on net investment rose to 5.11% for the 12 months ended Sept. 30, 1981—compared with 3.62% a year earlier—Dempsey pointed out that it was still far short of the 12.1% established by the Interstate Commerce Commission as adequate.

Six railroads reported deficits in ordinary income during 1981's first three quarters.

CLASS I RAILROADS IN THE UNITED STATES
For the Third Quarter

		1981 (millions)		1980 (millions)
Operating Revenues		$ 7,996.2		$ 6,994.9
Operating Expenses		7,331.1		6,601.6
Income Taxes on Ordinary Income	Cr.	255.6		63.4
Provision for Deferred Taxes		472.2		93.3
Net Railway Operating Income				
United States		427.6		243.8
Eastern District		117.4	Def.	87.1
Southern District		106.8		85.2
Western District		203.4		245.6
Ordinary Net Income[2]				
United States		497.7		147.8
Eastern District		146.7	Def.	116.9
Southern District		114.2		78.8
Western District		236.8		185.8
For the First Nine Months				
Operating Revenues		$23,207.6		$20,740.4
Operating Expenses		21,470.0		19,540.7
Income Taxes on Ordinary Income	Cr.	57.6		186.9
Provision for Deferred Taxes		647.2		231.4
Net Railway Operating Income				
United States		1,170.4		801.2
Eastern District		146.7	Def.	92.8
Southern District		345.4		295.1
Western District		678.3		599.0
Rate of Return*				
After Provision for Deferred Taxes		5.11%		3.62%
Ordinary Income[2]		1,475.1		586.3
Ordinary Income[2]				
United States		1,475.1		586.3
Eastern District		231.9	Def.	117.7
Southern District		360.4		272.0
Western District		882.7		432.0

Def. — Deficit
* — Rate of return for 12 months ended Sept. 30
1 — All data exclude Chicago, Rock Island and Pacific Railroad
2 — Income before extraordinary items

Perishables: Back to the rails

In May 1979, the Interstate Commerce Commission deregulated the haulage of most fresh fruit and vegetables. In 1980, the exemption was extended to potatoes, cocoa beans, dried beans, peas, and other edible field seeds. In March 1981, all piggyback traffic was deregulated. For Conrail, all of this has been good news.

In 1981, 19,431 trailerloads of perishable produce moved to East Coast markets via Conrail and its western connecting carriers, compared with 6,915 loads in 1980.

Said James A. Hagen, Conrail's senior vice president-marketing and sales: "This growth, which is in sharp contrast to a downward trend in rail movement of many other commodities in the Northeast and Midwest, reinforces our belief that railroads are most effective, most efficient, and most responsive to customer needs when they are allowed to work within the marketplace."

Slurry lobby calls in the reserves

Facing an uphill battle in Congress, coal slurry pipeline advocates have formed a coalition of groups called the Alliance for Coal and Competitive Transportation (ACCT). Composed largely of coal industry groups, ACCT also includes the American Association of Retired Persons (AARP), the Consumer Federation of America, the International Brotherhood of Teamsters, and four trade unions of the AFL-CIO.

ACCT president is Carl Bagge, who is also president of the National Coal Association. At the time of the coalition's formation, Bagge said, "Since Congress enacted the Staggers Rail Act, which reduced regulatory controls over the railroads, it is now absolutely essential that competition be allowed [in coal transportation]." AARP joined the group because it felt that "consumers will benefit from the construction of coal slurry pipelines even if a particular pipeline is not proposed to serve their area, because railroads will hold down pricing for coal shipments to prevent construction of this competing mode of transportation."

Railroads, though, think that the granting of eminent domain to slurry pipelines would hurt consumers. William H. Dempsey, president, AAR, has said that the bills would "threaten the long-run economic viability of the railroad industry, which is the backbone of the nation's common carrier system."

Market

CARLOADINGS

Loadings of revenue freight in the week ended Jan. 30 totaled 374,185 cars, according to the Association of American Railroads. This was a decrease of 68,645 cars, or 15.5%, compared with the corresponding week last year. Ton-miles generated by carloadings in the week ended Jan. 30 are estimated at 16.2 billion, a decrease of 11.9% below the corresponding week of 1981.

REVENUE FREIGHT CARLOADINGS

Commodity	Jan. 30 week
Grain	25,662
Other farm products	4,373
Metallic ores	14,986
Coal	109,134
Crushed stone, gravel & sand	8,312
Nonmetallic minerals	9,548
Grain mill products	14,528
Food & kindred products	14,915
Primary forest products	17,604
Lumber and wood products (except furniture)	6,042
Pulp, paper & allied products	17,987
Chemicals & allied products	23,547
Petroleum products	5,407
Stone, clay & glass products	9,931
Coke	4,544
Metals & products	12,126
Motor vehicles & equipment	12,307
Waste & scrap materials	9,477
Forwarder & shipper assn. traffic	9,037
All other carloads	43,520
LCL traffic	198
Total Cars Loaded	**374,185**

Cumulative total,	1982	1981
5 weeks	**1,708,984**	**2,050,802**
Estimated revenue ton-miles (billions), 5 weeks	**74.4**	**86.3**

PIGGYBACK LOADINGS

U.S. piggyback loadings for the week ended Jan. 23 totaled 32,749 cars (1.4% above the corresponding 1981 week) and 60,435 trailers or containers (up 4.3% from 1981). Cumulative volume for the first 4 weeks of 1982 is 113,808 cars (up 1.9% from 1981) and 209,939 trailers or containers (up 4.4% from 1981).

CANADIAN CARLOADINGS

Canadian railway revenue freight loaded in the seven-day period ended Jan. 14 totaled 4.09 million tons (down 7.6% from 1981). Cars loaded totaled 57,524 (down 14.3% from 1981). Cumulative loadings for 1982 were up to 7.1 million tons (down 12.0% from 1981).

● *Boston & Maine.*—Has accepted delivery of 200 45-ft piggyback trailers from Fruehauf. B&M has also purchased a new PC-90 Piggypacker for use at its East Cambridge intermodal terminal.

● *Montreal Metro.*—Has placed orders with the West German firm of Orenstein & Koppel for 41 escalators to be installed in eight new subway stations. The order, valued at $10 million (Canadian), is to be delivered this year.

● *Southern.*—Plans to install an additional 514 miles of cwr this year—of which 228 miles will be new and 286 relay—at a cost of $65.9 million. Southern also plans to spend $5.3 million for new rail-laying and m/w equipment. Track changes programmed for this year are budgeted at $18.8 million, including $1.9 million for connections at key points with the Norfolk & Western, Southern's prospective merger partner.

● *Freight cars and locomotives.*—The following report has been received from the AAR and the ARCI:

DELIVERED

	December		November	Twelve Months	
	1981	1980	1981	1981	1980
Built new by carbuilders	2,455	5,151	1,839	41,435	80,357
Built new in RR shops	256	379	224	3,466	5,563
Built new—total	2,711	5,530	2,063	44,901	85,920
Rebuilt	47	13	91	1,100	1,163
TOTAL DELIVERED	**2,758**	**5,543**	**2,154**	**46,001**	**87,083**
Locomotives (new and rebuilt)	101	149	45	756	1,724

ORDERED

To be built new by carbuilders	1,811	4,722	860	17,288	40,140
To be built new in RR shops	0	0	0	628	3,815
To be built new—total	1,811	4,722	860	17,916	43,955
To be rebuilt	900	0	0	2,000	1,063
TOTAL ORDERED	**2,711**	**4,722**	**860**	**19,916**	**45,018**

ON ORDER AND UNDELIVERED

	January 1		December 1	Average backlog	
	1982	1981	1981	1981	1980
To be built new by carbuilders	14,819	47,866	15,802	27,866	74,036
To be built new in RR shops	1,666	4,504	1,922	2,701	5,354
To be built new—total	16,485	52,370	17,724	30,567	79,390
To be rebuilt	900	0	47	322	242
TOTAL ON ORDER	**17,385***	**52,370**	**17,771**	**30,889**	**79,632**
Locomotives (new and rebuilt)	214	665	166	300	820

*Due to revisions and cancellations of some orders, the Jan. 1, 1982, backlog has been reduced by 433 cars.